COMMANDERS DIGEST

PROPOSED FY76 DEFENSE BUDGET

Vol. 17, No. 7, February 13, 1975

FY76 PROPOSED DEFENSE BUDGET

The Department of Defense budget for Fiscal Year (FY) 1976 reflects the resolve of the President to maintain the Defense structure in such a posture that the United States can fulfill its objectives of peace, mutual security, and international stability. The role that the United States plays in the world requires that we, along with our Allies, maintain military equilibrium through effective balancing of strategic and conventional forces with potential adversaries.

In terms of real purchasing power, the Defense budget has declined sharply in recent years. Substantial reductions have been made both in terms of manpower and force structure. By most measures of comparison, the Defense establishment has been reduced below pre-Vietnam levels. Administration initiatives to maintain military readiness within lower funding levels have been complicated by large Congressional reductions in budget requests and, even more significantly, by the impact of inflation.

The FY 1976 budget represents a conscious effort on the part of the President to reverse the erosion of DoD purchasing power. Although it is still well below the real-term FY 1976 levels projected in last year's President's budget, it does reflect program growth from the significantly depressed FY 1975 funding level.

FY 1975 supplemental and amended requests are included in the Defense totals for additional assistance to the Governments of South Vietnam and Cambodia. This involves $300 million for Defense assistance to South Vietnam and $222 million in military assistance for Cambodia. Since December, North Vietnam has escalated its military attacks against South Vietnam. In Cambodia, too, Communist forces have pressed new assaults. The Administration, in these situations, feels an obligation to provide the material support necessary to South Vietnam and Cambodia to permit them to defend themselves adequately.

The charts included in this issue of Commanders Digest provide more detailed data of the FY 1975 supplementals and amendment and the FY 1976 budget request. They contain also the specifics of the Department of Defense request for the three-month period beginning July 1, 1976 and ending September 30, 1976. This three-month period will provide a transition to the new fiscal year prescribed by the Congressional Budget Act of 1974 (P.L. 93-344 of July 12, 1974).

As required also by the Congressional Budget Act, the President's budget contains five-year projections for the Department of Defense and other Federal agencies.

Highlights of the Defense budget are summarized below:

Financial

The Defense budget estimates are based upon some important assumptions as to Congressional action and as to economic trends. For FY 1976, the estimates assume approval of the President's proposals to hold Federal pay raises and retiree cost-of-living increases to 5 per cent. They also assume enactment of legislation which would produce receipts for sale of petroleum from the reserves. If these assumptions are not borne out, spending in FY 1976 would be $95 billion, or $2.2 billion more than the budget estimate. For FY 1977 and later years, the estimates in current prices are even more dependent upon assumptions as to pay raises, price increases, and Congressional action in such areas as petroleum reserves.

Total Obligational Authority

The budget includes FY 1975 supplementals and amendment of $2.4 billion over amounts currently appropriated or under review by the Congress. Of this amount, $1.8 billion is required for pay and related increases—virtually all of which were included in the original FY 1975 budget projections presented in February 1974. The balance of $.6 billion is related to the additional funding requests for South Vietnam and Cambodia as well as to the President's legislative

FY 1976 Department of Defense Budget
FINANCIAL SUMMARY

By Program, Component and Budget Title
(Total Obligation Authority—In Millions of Dollars)

	FY 1974	FY 1975	FY 1976	FY 197T
DoD Program				
Strategic Forces	6,835	7,394	7,721	2,100
General Purpose Forces	27,535	28,207	35,851	7,251
Intelligence and Communications	5,891	6,375	7,272	1,692
Airlift and Sealift	778	921	1,597	348
Guard and Reserve Forces	4,308	4,853	5,579	1,517
Research and Development	6,850	7,674	9,365	2,457
Central Supply and Maintenance	8,537	8,985	9,896	2,642
Training, Medical, Other Gen Per Act	18,203	19,919	21,717	5,445
Administration and Assoc Activities	1,772	2,095	2,426	616
Support of Other Nations	4,283	2,570	3,261	574
Total Direct Program (TOA)	84,992	88,993	104,684	24,642
DoD Component				
Department of the Army	21,584	21,663	25,098	6,328
Department of the Navy	26,860	28,136	34,093	7,590
Department of the Air Force	24,682	26,201	30,593	7,167
Defense Agencies, OSD and JCS	2,134	3,061	3,513	848
Defense-Wide	6,339	7,513	8,598	2,177
Defense Civil Preparedness Agency	80	87	88	20
Military Assistance Program	3,314	2,331	2,701	513
Total Direct Program (TOA)	84,992	88,993	104,684	24,642
DoD Budget Title				
Military Personnel	24,104	24,975 *	25,913	6,731
Retired Pay	5,137	6,276	6,936	1,870
Operation and Maintenance	23,862	26,259 *	29,846	7,861
Procurement	17,467	17,356	24,720	4,578
Research, Development, Test, Evaluation	8,195	8,616	10,294	2,704
Special Foreign Currency Program	3	3	3	
Military Construction	1,695	1,914	2.901	76
Family Housing and Homeowners Asst Prog	1,136	1,176	1,282	290
Civil Defense	80	87	88	20
Military Assistance Program	3,314	2,331	2,701	513
Total Direct Program (TOA)	84,992	88,993	104,684	24,642

Note: In the FY 1976 and FY 197T columns, amounts for military and civilian pay increases, military retired pay reform and other proposed legislation are distributed.

* Reflects proposed legislation.

Details may not add to totals due to rounding.

OASD (COMPTROLLER)
February 3, 1975

proposals involving the Naval Petroleum Reserve. The total budget request of $89 billion for FY 1975 is still approximately $4.9 billion below the amount previously requested for this fiscal year.

The FY 1976 budget request for total obligational authority ((TOA) is $104.7 billion, an increase of $15.7 billion over FY 1975. This increase is required in large measure to cover pay raises and inflation. Also, it includes $2.3 billion necessary to cover increased costs for ships approved by the Congress in FY 1975 and prior years, largely due to unforeseen inflation. This involves no new program and no additional shipbuilding for FY 1976.

While this sort of problem has arisen in many areas, it is much greater in the shipbuilding program because of the extremely long leadtimes involved. An underestimate of inflation rates for ships can cause a funding problem that is many times greater than for systems with shorter leadtimes due to the effects of compounding over many years. The overall TOA increase does, however, reflect program growth.

While the FY 1976 budget request is higher in current prices than the projection of a year ago, it is still considerably lower in terms of real buying power.

Real resource availability is sharply down in FY 1975 and will decline somewhat more in FY 1976. The real increase in TOA then will not result in a significant improvement in the Defense resource picture until the years following FY 1976. As a matter of information, the chart on page 7 compares the impact of inflation for the period FY 1973 through FY 1976 with the estimate of a year ago.

The budget request for the Transition Period is $24.6 billion for total obligational authority. The request for this period is based upon amounts required to continue ongoing programs during the transition to the new fiscal year which will be on an October through September basis beginning October 1, 1976. Aside from the fact that no new program initiatives will be proposed, this three-month period will bear all of the characteristics of a fiscal year and DoD will provide to the Congress the specific details required to support authorization as well as appropriation requests.

For the period of FY 1977–FY 1980, Defense total obligational authority is projected to rise at about 2 per cent per year in terms of real purchasing power, in order to provide for selective improvements and to take advantage of changes in technology. The President's budget contains projections of budget authority which relate to TOA estimates of $116.6 billion, $127.8 billion, $138.3 billion, and $147.9 billion respectively.

Outlays

FY 1975 outlays are currently estimated at $84.8 billion. The President's estimate of $83.2 billion contained in his budget restraint message was

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APPROPRIATION TITLE	FY 1973	FY 1
Military Personnel	$28.9	$27
Retired Pay	5.8	6
Operation & Maintenance	33.6	31
Procurement	25.6	21
RDT&E	10.3	9
Military Construction	2.1	2
Family Housing	1.4	1
Civil Defense	.1	
Military Assistance	1.6	4
TOTAL	$109.4	$104

DEFENSE BUDGET

SUMMARY

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CONSTANT FY 1976 DOLLARS

OTAL OBLIGATIONAL AUTHORITY

1974	FY 1975	FY 1976	FY 1976T
7.3	$26.5	$25.9	$6.6
6.2	6.6	6.9	1.8
1.9	29.2	29.8	7.6
1.2	18.8	24.7	4.3
9.7	9.3	10.3	2.6
2.1	2.1	2.9	.1
1.4	1.3	1.3	.3
.1	.1	.1	–
4.5	2.6	2.7	.5
4.4	$96.5	$104.7	$23.7

DEPARTMENT OF DEFENSE BUDGET

FINANCIAL SUMMARY

(Billions of $)

	CURRENT DOLLARS TOTAL OBLIGATIONAL AUTHORITY				
APPROPRIATION TITLE	FY 1973	FY 1974	FY 1975	FY 1976	FY 1976T
Military Personnel	$23.6	$24.1	$25.0	$25.9	$6.7
Retired Pay	4.4	5.1	6.3	6.9	1.9
Operation & Maintenance	22.1	23.9	26.3	29.8	7.9
Procurement	18.3	17.5	17.4	24.7	4.6
RDT&E	8.0	8.2	8.6	10.3	2.7
Military Construction	1.5	1.7	1.9	2.9	.1
Family Housing	1.0	1.1	1.2	1.3	.3
Civil Defense	.1	.1	.1	.1	–
Military Assistance	1.1	3.3	2.3	2.7	.5
TOTAL	$80.2	$85.0	$89.0	$104.7	$24.6

The Air Force's record-breaker, the F-15 Eagle, lifts off the runway at Grand Forks Air Force Base, North Dakota. The aircraft unofficially broke all existing world time-to-climb records during test operations. The eight records were previously held by the Soviet Union and the U.S Navy.

based upon the original FY 1975 estimates adjusted only for Congressional action and for the specific proposals contained in his restraint package. The $84.9 billion outlay estimate is based upon actual program execution through December 1974 for the remainder of the approved programs.

FY 1976 outlays are estimated at $92.8 billion. At this level, Defense continues to decline as a percentage of the total Federal budget from 26.1 per cent in FY 1975 to 25.7 per cent in FY 1976. Defense outlays continue for the third consecutive year to represent less than 6 per cent of the Gross National Product (GNP). The percentage for the pre-Vietnam War year of FY 1964 was 8.3 per cent. A fiscal year 1976 budget at this share of the GNP would total approximately $132 billion in outlays—about $40 billion higher than the FY 1976 estimate. The Defense request represents 16.3 per cent of net public spending, continuing to decline from the FY 1975 level of 16.8 per cent.

For the Transition Period, outlays are projected at $25.4 billion.

For the period of FY 1977–FY 1980, the President's budget contains outlay projections of $104.0 billion, $119.0 billion, $130.0 billion, and $140.0 billion respectively.

Major Budget Changes

The increase related to military personnel funding requirements is substantially all for increased pay and allowances. In terms of constant dollars, there is actually a reduction of $433 million in this Title related to reduced strength levels and reduced proficiency pay and bonus payment programs. With respect to the latter item, the budget continues the President's FY 1975 budget restraint initiative which prescribes the payment of selective reenlistment bonuses on an installment basis rather than a lump sum basis.

The requirements for retired pay continue to increase in FY 1976 to a new aggregate level of $6.9 billion. An increase of approximately 57,000 average retired strength is projected for FY 1976.

While a substantial portion of the budget request for operation and maintenance relates to pay increases and purchase inflation, there is real program growth of $652 million planned for areas which will contribute to materiel and personnel readiness. In-

creases have been budgeted for air operations, real property maintenance, ship alterations and maintenance, and other depot maintenance.

In the Procurement Title, as has been indicated, $2.3 billion is included to cover increased costs for ships approved by Congress in FY 1975 and prior years. Adjusting for this and for inflation from FY 1975 to FY 1976, there is a real increase of about $2.5 billion. The production rates for the A–10 and the F–15 aircraft programs are continuing to build up in FY 1976. Increased investment is programmed for aircraft modifications and for procurement of aircraft spare parts and war reserve requirements.

The Trident missile procurement funding in FY 1976 highlights the initial large investment toward production of this new missile system. Continued emphasis is being given to the Army's tank requirements, and additional quantities of the M60A1 are programmed in FY 1976. Emphasis is being given also to the Navy's shipbuilding program, and $1.5 billion is included in the request for the procurement of 10 patrol frigates, 2 destroyer tenders, and 2 fleet oilers.

Compensating in part for increases in the weapons system acquisition area are reduced requirements in the budget for programs such as the F–14A aircraft and the Trident submarine programs. Increases have been programmed to improve our inventories of munitions, spares, repair parts and other support equipment with the objective of increasing the readiness posture of our forces.

While approximately $700 million of the increased Research, Development, Test and Evaluation request is required for pay increases, and purchase inflation, there is a constant dollar growth of about $1 billion. This increase is associated with a number of major weapon systems projects such as Trident missile, Air Force and Navy Cruise Missile programs, and the B–1 Bomber program, plus continued emphasis on systems in development such as the air combat fighter program which enters full scale development. It reflects also continued emphasis on research and exploratory development.

Real increases of over $800 million have been programmed in military construction for continued emphasis on replacing and upgrading troop housing, modernizing health facilities, and sheltering in-place dual based and rapid reaction aircraft in Europe. Also, construction of support facilities for the Trident submarine program and the second phase of construction of the Uniformed Services University for the Health Sciences are programmed at a higher level in FY 1976.

The programs for family housing, Civil Defense, and military assistance remain relatively constant in FY 1976. The military assistance request includes $1.293 billion for Defense assistance to South Vietnam.

Forces and Personnel

Strategic missile forces do not change in total. The Minuteman modernization program will be completed in FY 1975 and the conversion of Polaris to Poseidon submarines continues in FY 1976. By the end of FY 1976, the force will consist of 450 Minuteman II missiles, 550 Minuteman III missiles, 13 Polaris submarines, and 28 Poseidon submarines. Also, 54 Titan II missiles are retained.

The total number of strategic bombers remains unchanged, but the B–52 force has been reorganized into one less squadron at 22. The FB–111 squadrons remain constant at 4.

The manned fighter interceptor squadron force will be maintained at 6 F–106 squadrons.

During FY 1975 and FY 1976, the Army will add three divisions to its active force structure. This will be accomplished within an active force strength level of 785,000 by converting support elements to combat elements, continuing the effort to improve the so-called "tooth-to-tail" ratio.

Three Marine Corps active divisions are continued in FY 1976.

The Air Force active fighter force is maintained at 22 wings. There is, however, a reduction of one F–4 squadron and two A–7 squadrons with the introduction of the first two F–15 squadrons into the force. The majority of aircraft from the squadron reductions will be given to the Air National Guard for continued modernization of their force.

Navy attack wings will be decreased from 14 to 13, and two attack carriers (Hancock and Oriskany) will be dropped from the active forces, leaving 13 in the force.

The nuclear attack submarine force will increase from 64 to 68 through the introduction of 5 new nuclear submarines and the retirement of 1 (Halibut). The reduction of 4 warships is due to 7 new construction gains and 1 completed conversion, offset by the retirement of 12 ships.

The reduction of 1 amphibious assault ship results from the introduction of the initial two ships of the LHA class offset by the retirement of one amphibious cargo ship and two amphibious transport ships.

There is no change in the C–5A and C–141 force structure from FY 1975 to FY 1976.

The increase of three ships to the sealift forces reflects the addition of three oilers to the Military Sealift Command.

Total Defense direct military and civilian employment at the end of FY

COMMANDERS DIGEST

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1976 will be 3,085,000. This represents a further reduction of 38,000 below the end FY 1975 strength. It is 635,000 below the FY 1964 strength and 1,749,000 below the peak-war FY 1968 level.

Military personnel strengths continue to decrease in total. The reduction of 7,000 in the Navy represents lower force level manning requirements, while the reduction of 22,000 in the Air Force represents reduced overseas deployments and force realignments.

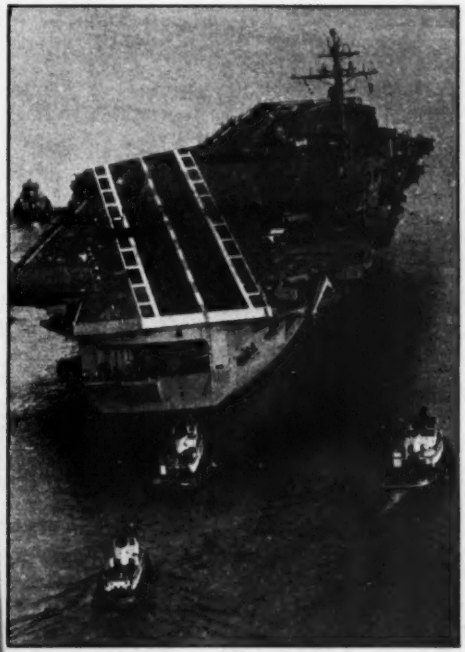
The reduction of 10,000 in civilian employment is net of increases for improved combat readiness involving naval shipyards, reserve and guard technicians and Army maintenance depots, offset by decreases related to the base realignment actions, announced on November 22, 1974, a reduction in the level of employment at RDT&E activities, and reductions in in-house Air Force depot maintenance workload.

Defense-related industry employment will continue to decline in FY

ANNUAL INFLATION RATES

	CONSUMER PRICE INDEX	WHOLESALE PRICE INDEX*	GNP DEFLATOR	INFLATION ON DEFENSE BUDGET OUTLAYS	INFLATION ON DEFENSE BUDGET TOA
FY 1973 TO FY 1974	9.8%	16.1%	8.1%	9.4%	11.8%
FY 1974 TO FY 1975	11.9%	18.3%	11.3%	14.4%	13.3%
FY 1975 TO FY 1976	9.5%	4.7%	9.8%	9.9%	8.4%
COMPOUND TOTAL, FY 1973-76	33.5%	43.8%	31.2%	37.7%	36.3%
DEFENSE FORECAST, FEBRUARY 1974				23.8%	23.3%

*Based on unofficial forecast after January 1975



The U.S. Navy attack aircraft carrier USS John F. Kennedy departs Norfolk Naval Shipyard, Portsmouth, Virginia. A pair of U.S. Army M-60 tanks advance in a field near a German town during Reforger 74 exercises.

1976, and Defense manpower (direct and industry-related) will take only 4.8 per cent of the total labor force in FY 1976. The FY 1964 percentage was 8.1 per cent, rising to 9.7 per cent at the peak of the Southeast Asia War.

Summary

The FY 1976 Defense Budget provides for maintaining Defense preparedness in the interest of ensuring peace and international stability.

As Secretary of Defense James R. Schlesinger has stated: *"Maintenance of a worldwide military equilibrium is essential to the American society as we know it today. An equilibrium of force is as vital in undergirding detente as it is indispensable in a period of tension. If we are to abandon the maintenance of a worldwide military balance, it should be done consciously with full understanding of the long-term consequences, rather than unconsciously because of generalized discontent or the neglect of the consequences of inflation."*

There is an increase in real purchasing power reflected in the budget in an effort to reverse the trends which have resulted in sharp declines in recent years. A continuation of the present trends raises a real threat to the maintenance of a worldwide military equilibrium. While the request is still below the levels contemplated in last year's budget, it is a step in the direction which should result in significant improvements in the Defense resource picture in the years subsequent to FY 1976.